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ABSTRACT

Part of a series of classroom aids designed for real estate instructors, this instructional packet was developed to help real estate students understand requirements for structure of the Texas real estate brokerage industry. First, information is presented on real estate brokerage, touching upon the industry's growth and the expansion of brokerage firms, the factors behind the apparently decisive advantage of large firms, contrasting perceptions of the fate of independent brokerage operations, potential liabilities of national brokerage firms (e.g., high overhead costs, slow market activity, and the vulnerability associated with size), and future directions in the brokerage industry. Included in the presentation are tables headed "Average Distribution of Company Dollar for Various Types of Brokerage Firms," "Annual Sales Revenue by Franchised Firms, 1975-83," "Number of Franchised Establishments, 1975-83," and "Characteristics of Various Service Industries Relating to Industry Structure." The packet concludes with a series of overhead transparency masters keyed to the text. (EJV)

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TEACHERS INSTRUCTIONAL PACKET (TIP)
No. 16, Spring 1987

STRUCTURE OF THE REAL ESTATE BROKERAGE INDUSTRY:

REQUIEM FOR THE HEAVYWEIGHTS?

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TIPS on the TIP

This Teacher Instructional Packet (TIP) is designed to provide the real estate instructor with a classroom supplement. Packets have been reviewed carefully, but there is always room for improvement. Suggestions to improve the usefulness of the TIP are welcomed.

Introduction to the TIP-16

TIP-16 has been developed to help students understand requirements for structure of the Texas real estate brokerage industry. This material is based on Structure of the Real Estate Brokerage Industry: Requiem for the Heavyweights, publication 501, September 1985. This material is provided as a **supplement** to existing course content. It is not a pat presentation. Instructors may use as much or as little as needed.

STRUCTURE OF THE REAL ESTATE BROKERAGE INDUSTRY:
REQUIEM FOR THE HEAVYWEIGHTS?

Real estate brokerage traditionally has represented one of the best opportunities available to the small, independent entrepreneur. Knowledge of the principles of real estate and the local market, along with hard work and energy, have proven more important to success than large accumulations of capital or access to capital markets.

VISUAL #1

Real Estate Brokerage Overview

By the early 1980s this situation appeared to be changing rapidly. Aggressive expansion by national franchise operations (such as Century 21) and large national brokerage firms (such as Coldwell-Banker) threatened to limit severely or even to drive out the independent broker. A 1981 survey of National Association of Realtors (NAR) members, indicated that more than 31 percent were affiliated with a franchiser, up from 20 percent in 1975.[1] By 1984, the nation's two largest brokerage firms, Coldwell-Banker and Merrill Lynch Realty, had combined gross revenues of almost $1 billion.[2] Like the restaurant and motel industries, real estate brokerage appeared to be consolidating under the large firms.

Many fundamental factors contributed to this growth. Large companies can deliver a wider array of services to customers, especially when consolidated with major retailing operations or security brokerage conglomerates. With a large proportion of home sales generated by inter-city transfers, large brokerage companies could expand business through referrals and relocation work. Through franchising or affiliation with a national firm, the small entrepreneur could share some of these advantages and was encouraged to become a part of these larger companies.[3] In 1982, the typical franchisee in real estate needed only

VISUAL #2

Growth Factors of Franchises

$7,000 in start-up cash to go into business.[4] Aided by a booming market in properties, the large brokerage companies experienced impressive growth.

In recent years, this expansion has stalled. The independent broker retains a large share of the market, particularly the residential market. Were the predictions of the independent's demise exaggerated? Or is this merely a temporary lull? This report examines the question by analyzing the reasons for the growth of large firms in more detail and the reactions of independents. Conclusions about the future of the industry are based on this analysis.

Period of Strong Growth

During the 1970s national brokerage firms grew from an almost negligible presence in the market to a substantial one. As recently as 1972, only one-half of 1 percent of all brokerage operations were affiliated with a franchise.[5] As indicated by the NAR survey described earlier, franchises now claim almost one-third of the industry. During the same period, a few large regional firms have expanded into nationwide operations. The most successful example is Coldwell-Banker. Started with a base in California, the firm now has offices and affiliates throughout the United States.[6]

A major factor in the expansion of these firms was the rapid growth of residential brokerage in the 1970s. The number of real estate agents and brokers increased from 352,000 in 1972 to 534,000 by 1982.[7] This period, it should be recalled, was when homeownership was increasingly perceived as the best investment one could attain. By the end of the decade, appreciation in the value of houses reached historically high levels.[8]

VISUAL #3

Strong Growth
Period of Franchises

The unusually active market in homes provided fertile ground for the expansion of national firms. Articles published during this period portrayed this trend as virtually irresistible. One author cited expectations that, by 1990, only ten large firms would control the residential brokerage market.[9] Several writers were already mapping strategies by which the small brokerage operation could survive the onslaught of the major firms.[10]

A review of the factors behind the apparently decisive advantage of large firms is useful. All of these factors represent features the large firms brought to the industry that the small independent broker could not replicate readily.

VISUAL #4

Size Advantages

Full Array of Services. Apart from facilitating the house sales transaction, the larger firms often can provide auxiliary services. Independents may advise or direct consumers to services, but many of the big firms can supply them directly through subsidiary company units. Examples include mortgage loans, mortgage and hazard insurance and relocation services.[11] Coldwell-Banker, since being purchased by Sears, can provide discounts on furniture and other goods associated with homeownership.[12] The result is an agent who can greatly simplify the complex process of buying a home by supplying everything needed in one operation.

Market Control. The independent broker is vulnerable to market conditions. Those conditions are dictated by developments over which the broker has little control, such as the supply and cost of mortgage financing. The large firms have the ability to invest in developing a strong industry image through advertising, and to develop products that add to their distinction.[13] For example, Electronic Realty Associates (ERA) has introduced

homeowner warranties and other products.[14] The large firm also may gain strength through vertical integration of the necessary inputs to the home purchase process, such as mortgage finance.

Attraction to Affiliates. The large firms can provide business aids to franchisees and affiliates that might prove too costly for the independent to develop.[15] The most common services included in the franchise package are advertising, referrals and personnel training.[16] Such features have apparently been instrumental in the successful expansion of franchises.

Greater Recognition. The large firms expend much effort to establish their public image. While a successful local firm may have established its name in the local market, incoming home buyers often will not recognize it. They may, however, recognize the name of a nationally advertised firm. A 1981 Gallup study found evidence of a link between name recognition and the homeowner's selection of a listing company.[17] This same advantage has made franchise operations successful in other industries.

Diversification. Commission revenue is subject to the volatility of the market. When sales are brisk, revenues are large, but when the market slows, agents' incomes suffer. Diversification allows large companies to hedge market slow-downs with income from related services, such as property management fees, insurance commissions and other investments.[18]

Fate of Independents

If the national firms hold such a formidable array of advantages, will the traditional, small, independent brokerage operation be pushed into oblivion? Many of the chroniclers of

the growth of the big (heavyweight) firms appear to assume that independent brokers will be absorbed into the larger firms through franchising and acquisition. Others see possible survival by a strategic change in operating procedures.

The most conventional view is expressed by Haney:

VISUAL #5

Predicted Changes

> The small (residential) firm must rely heavily on referral networks and its MLS (Multiple Listing Service), taking advantage of all the computerized analysis services the latter offers. More important, the firm must isolate a rather narrow market segment and then develop a reputation for competency and expertise in that area.[19]

In other words, the independent must make the most of the small role that will be left behind. What is most ominous about this outlook is that heavy involvement in networks means higher overhead costs while reliance on narrow market segments may increase vulnerability to market lulls. The world of the surviving independent portrayed by their observers is a much more risky one.

An alternative outlook is expressed by Roulac. He sees the increased competition forcing a change in the agent-client relationship and says that "brokers may increasingly opt for a consulting relationship, charging by the hour as lawyers do."[20] Such a consulting broker also may be relegated to a relatively minor role: as a troubleshooter, as a mover of unattractive properties or as a handler of only part of the transaction.

Clearly these authors predicted a drastic change in the structure of the brokerage industry. Moreover, the general outlook was for the demise of the independent brokerage firm.[21]

Potential Liabilities

VISUAL #6

Potential Liabilities

Although national firms bring many important advantages to the brokerage business, they also have several liabilities. These disadvantages have the potential, under the right circumstances, to stall and even place durable limits on the saturation of large firms in the market. The major drawbacks are highlighted below:

High Overhead Costs. As cited earlier, Bove made the point that franchisers are able to invest in their firms in an effort to control their markets more effectively. At least in the short-run, that investment has resulted in lower profitability for franchised brokers vis a vis independents. Furthermore, as shown in Table 1, franchised firms were affected much more by the 1979-80 market slowdown than were non-franchised firms. This impact resulted primarily from higher expenses allocated to advertising and operations.[22]

TABLE 1
AVERAGE DISTRIBUTION OF COMPANY DOLLAR
FOR VARIOUS TYPES OF BROKERAGE FIRMS
(Percent)

Type of Firm	Expense Category	Period 1975	1976-77	1979-80
Franchised	Advertising	16.9	17.2	20.1
	Operating	18.3	17.9	19.5
	Other Expenses	53.4	52.4	54.6
	Net Income	11.4	12.5	5.8
Non-Franchised	Advertising	16.3	16.5	17.1
	Operating	17.3	16.5	17.2
	Other Expenses	53.2	53.4	54.5
	Net Income	13.2	13.6	11.2

Source: National Association of Realtors, Economics and Research Division.

In competitive markets, it is generally the low cost, efficient operator who threatens to dominate the industry. Yet, the data in Table 1 show

that it is the non-franchised broker who enjoys the distinction of having the lowest overhead costs. Furthermore, the effects of the higher costs of franchised firms made them more vulnerable, rather than more secure, when market activity slowed in 1979-80.

Network Development. One major advantage of national firms is the scope of their operations and their ability to provide complementary services to clients. Recently, those advantages over independents have been reduced by the development of networks that allow small brokers to provide some of the same services.

The independent broker is forced to no longer rely on a small inventory of listings. Large computerized Multiple Listing Service companies now offer listings to member brokers.[23] Various independent groups also provide training seminars similar to the service provided to franchisees, yet at a much lower cost.[24] In addition, the independent can vary the level of participation in these systems. The franchisee gets a package deal.

The most significant breakthrough, however, is represented by the national mortgage networks. These systems allow brokers to help clients shop for available mortgage loans through computer terminals. In many cases, the broker can pre-qualify the client and obtain a commitment from the lender in an hour.[25]

Slowing Market Activity. In his 1979 article, Richard Bove warned:

A downturn in the preowned housing market occurring at a time of explosive growth in the sale of real estate brokerage franchises may result in an industry shakeout.[26]

Indeed, such a shakeout appeared to begin in 1980, one year after the

residential market peaked. Tables 2 and 3 illustrate the growth and subsequent stagnation of real estate franchises from 1975 to 1983. Table 2 presents annual sales revenues, while Table 3 lists the number of franchised establishments. Both tables include comparable figures for the broader area of franchised business services, which includes real estate. In addition, Table 2 indicates the total number of sales of existing homes in the nation each year.

TABLE 2
ANNUAL SALES REVENUE BY FRANCHISED FIRMS, 1975-83

Year	Real Estate Revenues[a] ($million)	Change (%)	Business Services[b] Revenues ($million)	Change (%)	Sales of Existing Homes (thousands)
1975	237	-	1397	7.1	2,452
1976	408	72.0	1813	29.7	3,002
1977	1729	373.5	3389	87.0	3,650
1978	3031	75.3	5046	48.9	3,986
1979	3840	26.7	6280	24.5	3,827
1980	3556	(7.4)	6749	7.5	2,973
1981	3374	(5.1)	7340	8.8	2,419
1982	3142	(6.9)	7804	6.3	1,990
1983	3217	2.4	8593	10.1	2,719
1984*	3597	11.8	10019	16.6	2,868
1985*	4183	16.3	12076	20.5	3,214

*Estimated by respondents.
[a]Gross commissions.
[b]Category includes accounting, credit and collection agencies, employment services, printing and copying, tax preparation, real estate and miscellaneous business services.
Sources: U.S. Department of Commerce, Franchising in the Economy, 1983-1985; National Association of Realtors, Existing Home Sales.

TABLE 3
NUMBER OF FRANCHISED ESTABLISHMENTS, 1975-83

Year	Real Estate Number	Change (%)	Business Services Number	Change (%)
1975	3,808	-	22,159	13.5
1976	5,986	57.2	25,122	13.4
1977	11,449	91.3	32,227	28.3
1978	16,959	48.1	38,727	20.2
1979	18,371	8.3	41,013	5.9
1980	17,298	(5.8)	40,861	(0.4)
1981	15,636	(9.6)	45,835	12.2
1982	14,771	(5.5)	46,498	1.4
1983	13,929	(5.7)	46,359	(0.3)
1984*	15,148	8.8	50,825	9.6
1985*	16,923	11.7	57,325	12.8

*Estimated by respondents.
Sources: U.S. Department of Commerce, Franchising in the Economy, 1983-1985.

VISUAL #7

Features of the
Franchising Phenomenon

The data suggest two features of the franchising phenomenon. First, the factors that created rapid growth in business service franchising in the latter 1970s did not continue in the 1980s. Undoubtedly, the national recession was a major influence, although the growth of franchising did not fully recover with the economy. Perhaps the industry has become saturated and the franchisers have signed on the majority of those who wish to enter the business through this route. If so, the share of the industry held by franchised firms may have reached equilibrium.

Second, the growth of franchised real estate firms was heavily influenced by the slowdown in the housing market. This apparent relationship leaves the prospect that once the market regains strength, franchisers can begin to recruit anew. However, expectations of a return to the hyperactive housing markets of the 1970s are dampened by several factors. Much of the demand for housing in the 1970s was induced by unusually high rates of inflation. Unless the economy returns to double-digit inflation, this strong impetus to sales will not be present in the near future. While it is expected that the baby-boom generation will increase the rate of homeownership in the country,[27] the impact on sales volume could be tempered. Many in this population group became homeowners in the 1970s in response to the persuasive investment and tax advantages present at that time. Therefore, the extent of home-buying behavior normally associated with this age group may be lower than expected. Also, the frequency of house trading may be dampened by the higher costs of homes and mortgage financing.[28]

In summary, a case could be made that the major inroads in the real estate brokerage industry by franchise operations and large corporations have already been made. They may have to

struggle in future years to maintain these gains.

Mergers by Independents. A group of independent brokers in Baltimore became concerned about the encroachment of national franchises and corporations onto their market. Instead of joining in or selling out, they formed their own large, regional firm by merging five independent brokerages in 1983. The consolidation gave them the economies of scale to undertake advertising and expand their line of services--adding title and mortgage insurance--to compete successfully with the national firms. Believed to be the first merger of its kind in the country, some believe it could provide a model for brokers who want to remain independent yet are threatened by the major chains.[29]

VISUAL #8

Franchise Problem Areas

Vulnerability of Being Big. Large corporations, in the past, have found difficulty entering the real estate business.[30] In the 1960s, ITT purchased the successful development firm of Levitt and Sons, the creators of the path-breaking Levitown developments. The established procedures of corporate management followed by the parent firm, however, did not adapt well to real estate development. ITT eventually divested itself of the operation with little to show for its efforts.

The applicability of big business techniques to real estate brokerage has yet to be demonstrated. This is especially the case with national firms entering real estate from other industries. Some doubt that Sears, for example, can duplicate its retailing success in marketing homes.[31] In another case, Merrill Lynch has had difficulty integrating real estate brokerage into its securities brokerage operation.[32] These companies may eventually revolutionize the real estate brokerage industry, but thus far, their approaches remain unproven.

Broker Resistance. In a 1977 study, Mlynaryk found independent brokers in a defensive mood. Many thought the national firms held overwhelming competitive advantages.[33] Undoubtedly, this belief contributed to the rapid growth of franchises during that time.

Independent brokers contemplating joining a franchise also had concerns about the relationship they were about to enter. There were doubts about the franchisors' ability to provide services commensurate with the franchise fee. Many brokers were hesitant to give up the original name of their firm in lieu of the franchise identification (many companies allow retention of the broker's name to varying degrees). Others felt the requirements for reporting and using company management techniques might be too burdensome.[34]

In 1981, two University of Houston professors surveyed real estate brokers in the Houston area. Among the findings were the expressed beliefs of a majority of non-franchised brokers that franchising caused a loss of professional identity, a loss of managerial control, that franchises were more impersonal than independent firms, and that the franchise fee was too high for the services provided (interestingly, almost 37 percent of franchised brokers agreed that the fee was too high). In addition, 86 percent of non-franchised brokers believed independent brokers would continue to be a major factor in the market.[35] These survey results indicate a strong resistance to the franchising movement among brokers who have yet to join. Although the majority of franchisees expressed satisfaction with their relationship, a surprisingly large fraction felt the franchise fees were too high.

VISUAL #9

Houston Broker Survey

VISUAL #10

Consumer Attitudes

Consumer Attitudes. The main thrust of the expansion of national firms has been within the residential market.[36] Respondents to a 1984 survey of Texas real estate licensees indicated that franchised brokers spend a significantly greater proportion of their time in residential sales.[37] When the large firms were growing rapidly in the late 1970s, many observers believed that the services they could offer homebuyers and sellers gave them a definite advantage over independent agents.

Efforts to convince the consumers of brokerage services that national firms are superior face significant hurdles. While some segment of the market may be won over, the greater portion of consumers probably will demand quality over what they may perceive as gimmickry. Wright uses the analogy of trading stamps given by supermarkets as a marketing device.[38] The stamps were used to convince customers that they were getting more for their money. Yet the stores not giving stamps found they could maintain their share of the market by providing better merchandise at lower prices. Similarly, independent brokers may find they can counter specialized services provided by nationally affiliated firms through more efficient and effective delivery of service.

A recent survey of "experienced consumers" in Ohio indicates that the special services offered by national firms may not be highly valued by consumers. The researchers differentiate brokerage services as "high touch"--those requiring personal consultation--and "high tech"--those involving sophisticated techniques. The respondents to their survey valued personal high touch services over more technical aspects. The respondents also believed that local, independent brokers were more likely to provide such valued services. The national firms were viewed as more adept at using techniques

such as computer applications, video presentations and connections with agents in other parts of the country. These services, however, were relatively unimportant to the respondents.[39]

Future Directions

VISUAL #11

Future Directions Depend On:

Coinciding with unusually active housing markets, nationally affiliated real estate brokerage firms expanded rapidly in the late 1970s. Since that time, growth has been slow. It now seems reasonable to speculate on the future structure of the brokerage industry. Will real estate follow the examples of fast food restaurants and motels, becoming dominated by franchises and large corporations? Or will the independent broker remain the mainstay of the business, as suggested by the most recent trends?

The answer appears to depend on several factors:

Profitability. According to survey data, independent brokers have enjoyed higher net incomes as a percentage of total revenue under all levels of market activity than have nationally affiliated brokers. Indeed, independents fared even better than affiliated brokers during market downturns. This results primarily from the greater amount of investment by national firms in promoting their businesses. If these investments prove successful, the profit situation could reverse, So far, the residential markets do not appear to be responding in the same way investment property markets have. Limited evidence suggests that homebuyers and sellers remain unimpressed with the advantages of using nationally affiliated brokers. Until that resistance is broken and the level of activity in the markets escalates, expansion of national firms in residential brokerage is not likely to return.

Development of Networks for Independents. Independent brokers can use many of the advantages of national firms by using the services of referral and mortgage banking networks. Independents can subscribe to personnel training services. Local multiple listing services allow independents to collaborate on sales and listings. Independents may even merge to form regional firms if they feel there are advantages in larger economies of scale. Moreover, unlike franchisees and national affiliates, they can participate in these networks as they wish. As these networks continue to evolve and brokers are willing to participate, much of the competitive advantage of the national firm will dissipate.

Action of Regulatory Authorities. One liability of large brokerage firms may be their vulnerability as a target for regulators suspicious of their operating procedures. Anti-trust policies in this country place much importance on the relative size and number of firms in an industry. When the number of firms decreases and market share of any one firm grows beyond some critical stage, uncompetitive activities are suspected. As Bove states, the emergence of a large entity in the market may prove an irresistible opportunity to examine commission structures for price fixing features.[40] There may even come a time when some large brokerage firm is forced to break up, in the manner of AT&T, under official pressure from the federal government.

Uniqueness of Real Estate Brokerage Services. The most important factor is the extent to which real estate brokerage, specifically residential brokerage, lends itself to national affiliation. National firms have enjoyed great success in some lines of business, while making little progress in others. What are the features of

particular service businesses that seem to differentiate their propensity toward consolidation?

Table 4 compares selected features of several types of services, some of which are largely organized by national firms while others are dominated by local firms (industry structure). Others have both types of firms in significant proportions (designated as "mixed").

VISUAL #12

Selected Features of Services

One feature is the importance of advertising in attracting clients. Some businesses rely heavily on media advertising while others use personal referrals. National firms seem to have an advantage here they can afford to advertise effectively. In those services where advertising is not used extensively, local firms predominate.

Another advantage of national firms is the greater scope of operation. Some businesses serve clients on a nationwide scale while others operate solely in local markets. With affiliates throughout the country, it is much easier for national firms to conduct business on a national scale. This factor also seems to contribute to industry structure as reflected in the table.

The third factor is the nature of the service product, whether it is somewhat standardized or largely personalized to each client. National firms should be better at delivering standardized services because such services may be developed in a centralized location. As shown in the table, the most personalized services tend to be delivered by independents; which the most standardized are provided by national firms.[41]

TABLE 4
CHARACTERISTICS OF VARIOUS SERVICE INDUSTRIES
RELATING TO INDUSTRY STRUCTURE

Service Industry	Industry Structure*	Importance of Advertising	Market Scope	Nature of Product
Physicians	Independent	Unimportant	Local	Personal
Attorneys	Independent	Unimportant	Local	Personal
Accountants	Mixed	Somewhat unimportant	National/ local	Somewhat personal
Residential brokerage	Mixed	Somewhat unimportant	Local	Somewhat personal
Mortgage banking	Mixed	Somewhat important	National regional	Standard
Insurance sales	Mixed	Important	National	Somewhat standard
Tax Preparation	National firms	Important	Local	Somewhat standard
Securities brokerage	National firms	Important	National	Standard

*Industries are arranged in order of mostly independent to mostly national.

VISUAL #13

Summary

Therefore, the industries most likely to be dominated by national firms are those where advertising is important, the scope of the market is national and the service delivered is relatively standardized. Where does residential real estate fit? Advertising, in this case to familiarize the public with the firm's name, is somewhat unimportant. Local brokerage firms build their reputation through service, with advertising of the firm playing a minor role (as distinct from advertising listings, a very common practice in residential brokerage).[42] The market is largely local for residential real estate. The exception is the segment of business related to inter-city referrals, where national affiliates may enjoy an advantage. Although there are proven methods of selling houses, the brokerage service is probably more customized to each client than standardized. In an era when straightforward, uncomplicated sales are less common, the service is far from standard. Moreover, if the findings of the Ohio survey can be generalized, consumers appear to value the personalized aspects of the service.

Residential real estate exhibits characteristics that invite some consolidation under nationally affiliated firms but favor a continued major role for local independent providers. Analysis suggests that any radical restructuring of the industry will be far in the future, if it occurs at all.

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[1]Economics and Research Division, Real Estate Brokerage 1981: Income, Expenses, Profits (Chicago: National Association of Realtors, 1981), p. 15.

[2]Compiled by Stephen Roulac & Co.

[3]"(Franchising) helps small businesses compete with the giants, since franchisees have a good chance to survive and prosper using the franchiser's know-how and trademark or servicemark; it also offers a unique opportunity to people with limited capital and experience." Bureau of Industrial Economics, Franchising in the Economy: 1980-1982 (Washington: Dept. of Commerce, 1982), p. 1.

[4]Bureau of Industrial Economics, Franchising in the Economy: 1982-1984 (Washington: Dept. of Commerce, 1984), table 25, p. 45. Among the franchised types surveyed, only tax preparation service required less start-up cash ($5,000 median) than real estate.

[5]Barbara Brown, "Expanded Broker Services Keynote the '80s," Real Estate Today (September 1982), p. 41.

[6]Coldwell-Banker's Residential Affiliate Program currently has 28 franchises in Texas cities, in addition to company owned offices. As of January 1985 no Sears Financial Network Centers were operating in Texas Sears retail stores. At least three were expected to open later in the year.

[7]U.S. Bureau of Labor Statistics.

[8]Richard L. Haney, Jr., "Real Estate Heavyweights in the Eighties," Real Estate Review (Summer 1980), p.36.

[9]Pam Savage, "Is There a Conglomerate in Your Future?" California Real Estate (July 1982), p.26.

[10]Haney, op.cit., p. 43; Stephen E. Roulac, "Fear Stalks Main Street," Forbes (January 16, 1984), p. 137.

[11]Ibid., p. 38; Savage, op.cit., p. 26; Thomas Ervin, Real Estate Revolution: Who Will Survive? (Birmingham, Michigan: Nottingham, 1979), pp. 41-48.

[12]Lew Sichelman, "Trend Setter Ignores Taunts, Jeers," The Houston Post (January 15, 1984), Total Living section, p. 1.

[13]Richard X. Bove, "Franchised Real Estate Brokerage: The Giant Fledgling," Real Estate Review (Summer 1979), pp. 48-49.

[14]Ibid., p. 52.

[15]Ibid., p. 50.

[16]Brown, op.cit., p. 41.

[17]The Gallup Study of Awareness of and Attitudes Toward National Real Estate Organizations (November 1981), cited in Brown, op.cit., p. 41.

[18]Brown, op.cit., p. 42.

[19]Haney, op.cit., p. 43. Roulac feels the same approach is still needed, primarily due to the growing sophisitication of the market. See "Should Real Estate Brokerages Be Supermarkets or Corner Groceries?" Real Estate Review, (Winter 1985), pp. 78-81.

[20]Roulac, op.cit., p. 137.

[21]Some of these same concerns are beginning to be expressed in regard to mortgage lending. Some see the role of savings and loan associations being threatened by the financial conglomerates. See Sara Leonard and Dru Johnston, "Thrift's Key to Survival: Finding a Niche," Freddie Mac Reports (Sept. 1985) pp. 1-2.

[22]"Real Estate Brokerage 1981," op.cit., p. 32.

[23]Haney, op.cit., p. 39.

[24]Arthur L. Wright, "Franchises: New Perspectives," Real Estate Today (September 1982), p. 39.

[25]Gary Meyers, "Mortgages by way of a computer," Houston Post, (January 31, 1984), p. 1D.

[26]Bove, op.cit., p. 52.

[27]Don E. Albrecht, "Projecting the Influence of Aging Baby Boomers," Tierra Grande (#28, 1985), p. 10.

[28]Wright, op.cit., p. 38.

[29]Michael Days, "Baltimore Realty Firms Buck Trend to National Networks," Wall Street Journal (January 16, 1985), p. 30.

[30]An excellent description of the deterrents to corporate real estate involvement is included in John H. Moores and Jack P. Friedman, "A Mixed Bag of Blessings: Corporate Real Estate," Financial Executive (October 1978), pp. 62-67.

[31]Savage, op.cit., p. 27.

[32]"After A Slow Start, Real Estate and Finance Begin to Mesh," BusinessWeek (January 16, 1984), p. 67.

[33]Peter M. Mlynaryk, "Franchising Up-date," Real Estate Today (January, 1977), p. 44.

[34]Ibid., p. 45.

[35]Weldon J. King and Arv Vilutis, "A Statistical Analysis of the Relationship Between Franchised and Non-franchised Real Estate Brokers and Firms in the Houston Area," unpublished research report (December 1982), pp. 19-43

[36]Haney, op.cit., p. 36.

[37]Texas Real Estate Research Center 1984 Licensee Survey.

[38]Wright, op.cit., p. 39.

[39]John P. Blair and Domenico Rossi, "Housing Consumers Prefer Local Brokers," Real Estate Review (Winter 1985), pp. 82-84.

[40]Bove, op.cit., p. 52.

[41]Holiday Inn even uses standardization of its product as a marketing tool.

[42]In a recent survey of homebuyers in Plano, Texas, the most important agent selection criterion cited was the recommendation of a friend. The least important was media advertising. See Kerry D. Vandell, et.al. Exploratory Research Investigating the Real Estate Transactions Process, Technical Report #456 (Texas Real Estate Research Center, 1983), pp. 132-134.

Real Estate Brokerage Overview

- Provides opportunity for small, independent entrepreneur
- Requires knowledge of real estate principles, local market
- Requires hard work and energy

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Growth Factors Of Franchises

- Delivers wide range of services
- Expands business through referrals, relocations

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Strong Growth Period Of Franchises

- Grew substantially in 1970s
- Residential brokerage major factor
- Homeownership perceived as best investment
- Active market was fertile ground

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Size Advantages

- Full array of services
- Auxilliary services
- Market control through advertising, name recognition
- Business aids to affiliates
- Greater recognition, public image
- Diversification

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Predicted Changes

- Small firm must rely heavily on referral networks, MLS
- Independent must make most of small role left
- Change in agent-client relationship
- Change in brokerage industry structure

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Potential Liabilities

- Higher initial overhead
- Development of networks by independents
- Large, computerized MLS
- Independent's ability to vary level of participation
- Growth of national mortgage networks
- Market downturn at time of explosive franchise growth

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Features of Franchising Phenomenon

- Industry share may have reached equilibrium
- Branch growth heavily influenced by housing market slowdown
- Many 1970's homeowners bought because of investment, tax advantages
- Major franchise inroads probably already made

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Franchise Problem Areas

- Mergers by independents
- Vulnerability of being big
- Unproven applicability of big business techniques
- Problems assimilating real estate within large company

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Houston Broker Survey

- Loss of professional identity
- Loss of managerial control
- More impersonal
- Fee too high
- Belief independents would continue as major market factor

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Consumer Attitudes

- Main franchise thrust in residential market
- Consumers unconvinced national firms superior
- Independents with efficient, effective delivery
- Certain franchise services relatively unimportant

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Future Directions Depend On:

- Profitability
- Development of networks for independents
- Action of regulatory authorities
- Uniqueness of real estate brokerage services

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Selected Features Of Services

- Importance of advertising
- Greater scope of operations
- Nature of the service product

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Summary

- Advertising firm's name somewhat unimportant
- Market largely local for residential
- Brokerage service more customized than standardized
- Customers value personalized aspects
- Major role of independents appears secure

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